DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF

FROM: KRISTINE SASSER
DEPUTY ATTORNEY GENERAL

DATE: AUGUST 29, 2014

SUBJECT: IDAHO POWER'S APPLICATION CONFIRMING THE CAPACITY DEFICIENCY PERIOD FOR INCREMENTAL COST, INTEGRATED RESOURCE PLAN, AVOIDED COST METHODOLOGY; CASE NO. IPC-E-14-22

Idaho Power filed an Application with the Commission on August 13, 2014, requesting that the Commission issue an Order confirming the use of a July 2021 capacity deficiency period in the approved incremental cost, integrated resource plan, avoided cost methodology (IRP methodology) applicable to negotiated avoided cost rates for proposed PURPA qualifying facilities (QFs). Idaho Power requested that its Application be processed by Modified Procedure.

BACKGROUND

On December 18, 2012, the Commission issued Order No. 32697 authorizing the use of Idaho Power's incremental cost IRP methodology. Solar and wind QF projects that exceed 100 kilowatts (kW) and all other QF generation that exceeds 10 average megawatts (aMW) negotiates avoided cost rates based on the approved incremental cost, IRP methodology. In its Order, the Commission stated "We further find it appropriate to identify each utility's capacity deficiency based on load and resource balances found in each utility's IRP." Order No. 32697 at 16.

> In calculating a QF's ability to contribute to a utility's need for capacity, we find it reasonable for the utilities to only begin payments for capacity at such time that the utility becomes capacity deficient. If a utility is capacity surplus, then capacity is not being avoided by the purchase of QF power. By including a capacity payment only when the utility becomes capacity deficient, the

> utilities are paying rates that are a more accurate reflection of a true avoided cost for the QF power.

Id. at 21. The Commission discussed the use of inputs from the Company's integrated resource planning process in the calculation of avoided cost rates. The Commission directed that "when a utility submits its Integrated Resource Plan to the Commission, a case shall be initiated to determine the capacity deficiency to be utilized in the SAR [Surrogate Avoided Resource] Methodology." *Id.* at 23. With regard to the IRP methodology, the Commission stated that "utilities must update fuel price forecasts and load forecasts annually – between IRP filings. . . . all other variables and assumptions utilized within the IRP Methodology remain fixed between IRP filings (every two years)." *Id.* at 22.

For purposes of the SAR methodology, the Commission recently determined that Idaho Power experiences its first capacity deficiency in July 2021. Order No. 33084. Although the Company's 2013 integrated resource planning process showed a first deficit in July 2016, Idaho Power presented evidence that it had 400 MW of demand response program customers enrolled for the 2014 season. The addition of 400 MW of capacity pushed the Company's deficit out to July 2021.

THE APPLICATION

Idaho Power states that both the SAR and the IRP methodologies start with a default capacity deficit which is the same as that established by the most recent integrated resource planning process. For the 2013 planning process, a first deficit was identified as 2016 in the Company's preferred resource portfolio. However, Idaho Power states that because of the suspension of the Company's demand response programs in 2013, the first deficit of 2016 legitimately did not consider the approximately 400 MW of demand response.

Because of the unique circumstances of demand response not being considered in the planning process and therefore also not being considered in the IRP methodology calculation of avoided cost rates, Idaho Power has entered into contracts that contain capacity payments for the entire term of the 20-year agreements. Idaho Power believes the correct avoided cost pricing for all proposed PURPA projects should take into account the Commission's finding that Idaho Power experiences its first capacity deficit in July 2021. The Company maintains that the IRP methodology is meant to be a more flexible, negotiated process whereby a more accurate representation of avoided cost can be determined. Therefore, the IRP methodology should reflect the capacity deficiency that the Commission determined based on the consideration of an additional 400 MW of capacity – provided through the Company's demand response program. Idaho Power states that the Company has just over 529 MW of proposed new solar QF projects seeking pricing and contracts. The difference in price for all 529 MW of proposed solar when applying a capacity deficit of July 2021 (includes 400 MW of demand response) instead of July 2016 (Idaho Power's 2013 integrated resource planning process determination of capacity deficiency) is approximately $170 million over the life of the projects.

Idaho Power states that because the IRP methodology is meant to be flexible and because the Company is obligated to ensure that avoided cost rates are an accurate reflection of the utility's avoided cost, the Commission should confirm use of a first capacity deficit of July 2021 for purposes of avoided cost prices determined through use of the IRP methodology.

STAFF RECOMMENDATION

Staff has reviewed Idaho Power's Application and recommends that the case proceed through the use of Modified Procedure with a comment deadline of September 30, 2014.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application and Notice of Modified Procedure setting a comment deadline of September 30, 2014?

Kristine Sasser

Kristine A. Sasser
Deputy Attorney General

M:IPC-E-14-22_ks